

Baillie Gifford Japanese Fund

31 March 2024

About Baillie Gifford

Philosophy	Long-term investment horizon A growth bias Bottom-up portfolio construction High active share
Partnership	100% owned by 57 partners with average 21 years' service Ownership aligns our interests with those of our clients Enables us to take a thoughtful, long-term view in all that we do Stability, quality and consistency

Investment Proposition

Our objective is to produce above-average long-term performance through investment in Japanese equities. We believe the Japanese equity market offers active managers a broad selection of high quality companies capable of delivering attractive and sustainable earnings growth for shareholders. Over time we expect this approach to generate better returns than the Japanese market. In contrast to other major markets, growth often commands little or no valuation premium in Japan, and we continue to identify global leading businesses which trade on a substantial discount to their peers. This provides an excellent backdrop for our investment style.

Fund Facts

Fund Launch Date	08 October 1984
Fund Size	£1735.2m
IA Sector	Japan
Active Share	83%*
Current Annual Turnover	9%
Current number of stocks	60
Stocks (guideline range)	45-65

*Relative to TOPIX (in sterling). Source: Baillie Gifford & Co, Japan Exchange Group.

Fund Manager

Name	Years' Experience
Matt Brett*	21

*Partner

Fund Objective

To outperform (after deduction of costs) the TOPIX, as stated in sterling, by at least 1.5% per annum over rolling five-year periods.

The manager believes this is an appropriate target given the investment policy of the Fund and the approach taken by the manager when investing. In addition, the manager believes an appropriate performance comparison for this Fund is the Investment Association Japan Sector.

There is no guarantee that this objective will be achieved over any time period and actual investment returns may differ from this objective, particularly over shorter time periods.

Periodic Performance

	3 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)
Class B-Acc (%)	8.4	8.4	-2.1	4.2
Index (%)*	11.1	21.7	6.8	8.1
Target (%)**	11.5	23.5	8.4	9.8
Sector Average (%)***	9.4	18.2	4.4	7.7

Source: FE, Revolution, Japan Exchange Group. Total return net of charges, in sterling.

Share class returns calculated using 10am prices, while the Index is calculated close-to-close.

Baillie Gifford operates a single swinging price for the Fund and, therefore, may apply a dilution adjustment to the price to protect long-term investors from the costs associated with buying and selling underlying investments that result from other investors joining or leaving the Fund. This adjustment will affect relative performance, either positively or negatively.

*TOPIX (in sterling).

**TOPIX (in sterling) plus at least 1.5% per annum over rolling five-year periods.

***IA Japan Sector.

Discrete Performance

	31/03/19- 31/03/20	31/03/20- 31/03/21	31/03/21- 31/03/22	31/03/22- 31/03/23	31/03/23- 31/03/24
Class B-Acc (%)	-8.7	43.5	-8.5	-5.4	8.4
Index (%)*	-2.5	24.8	-2.7	2.8	21.7
Target (%)**	-1.0	26.7	-1.2	4.3	23.5
Sector Average (%)***	-3.4	31.8	-4.4	0.7	18.2

Source: FE, Revolution, Japan Exchange Group. Total return net of charges, in sterling.

Share class returns calculated using 10am prices, while the Index is calculated close-to-close.

Baillie Gifford operates a single swinging price for the Fund and, therefore, may apply a dilution adjustment to the price to protect long-term investors from the costs associated with buying and selling underlying investments that result from other investors joining or leaving the Fund. This adjustment will affect relative performance, either positively or negatively.

*TOPIX (in sterling).

**TOPIX (in sterling) plus at least 1.5% per annum over rolling five-year periods.

***IA Japan Sector.

Market environment

This quarter marks a momentous change for Japan, for it has now escaped from the shackles of the past: Its market has smashed through the “iron coffin lid” of 1989 to post new highs, and its central bank has claimed victory over the country’s multi-decade fight with deflation.

After 35 years of operating within the shadows of the market’s peak performance of 1989, pushing through that glass ceiling will likely send a strong message to foreign and domestic investors that Japan no longer needs to be defined by - or be a product of - its past. This may also help stimulate the same animal spirits that saw Japan emerge as an economic powerhouse during the Meiji Restoration and again in the post-war period when the country grew to account for over 40% of the global developed market index. If stock markets are a leading indicator of an economy, these new highs augur well for what could come next. This news was soon superseded by another inflexion point when Japan became the world's last country to end its negative interest rate policy. The final trigger appeared to be unionised wage negotiations, which have resulted in the highest pay packet increase in 33 years of over 5%. A potentially trendsetting level in the world's only country where wage growth had effectively stopped for 30 years! This was considered a prerequisite to achieving the Bank of Japan’s 2% target of domestic demand-led inflation. This well-telegraphed move further weakened the YEN (which extended its 7% year-to-date loss against the dollar) and a relative outperformance in cyclical sectors (such as Banks, Oil & Coal, Transportation and Mining) during the quarter.

Performance

Softbank, Rakuten and MS&AD Insurance were some of the most substantial contributors to performance during the quarter. **Softbank’s** shares have rallied after strong earnings bolstered by gains within the vision funds (from listed and unlisted investments), strong performance from ARM (which has benefited from an increase in AI-enabled smartphone demand) and a windfall from Telecom asset T-Mobile. NAV has since risen dramatically for Softbank, as ARM’s share price doubled in February, leaving Softbank – which retains a 90% stake in the company – trading at a larger discount than before. **Rakuten** also rose after releasing equally encouraging numbers. The mobile segment, which has been loss making for some time, has begun to benefit from an increasing momentum in subscriber growth and a reduced churn rate, resulting in narrowing losses. The company has also successfully issued new debt, which should shore up its finances for further capital investment. Finally, insurance giant **MS&AD Insurance** saw its share price jump due to its plans to unwind its substantial equity cross-shareholdings, which amount to roughly 109% NAV.

Detractors to performance include **Misumi**, a company which cuts out multiple intermediaries in the distribution of machinery parts, which continues to be weak as a result of a weaker backdrop in China, and **Rohm**, a leader in silicon

carbide technology, after their earnings underwhelmed the market, and **Shiseido** which was marginally down during the quarter despite encouraging announcements: they are pushing through a price hike for their flagship brands, Shiseido and Clé de Peau Beauté, and have acquired a US company DDG Skincare, in line with its strategy to move more into dermatological lines.

Notable transactions

During the quarter, we took a new position in **KOSE**, adding to our prestige skincare exposure, which consists of Shiseido, Pola Orbis, and Kao. KOSE is a family-run company with specific strength in the high prestige segment of the market. Its DECORTE, JillStuart and Sekkisei branded products have a strong following not only in Japan but also in China and other Asian countries where spending on beauty products is poised to grow rapidly over the next decade. Shares have been very weak over the last several years and we believe that the current valuation level significantly underestimates the long-term growth prospects of the company.

This was funded from the complete sale of **Mitsubishi Corporation**, Japan’s largest trading company, and **Outsourcing**, a leading staffing company, following the announcement of a management buyout. We also marginally reduced our position in Kyoto Financial Group and Denso.

We also made marginal additions to SoftBank, which has seen its discount widen after strong gains in its NAV thanks to the success of ARM holdings; and to Rakuten and Cyberagent to reflect our growing conviction in their investment cases.

Market Outlook

A reversal in current cyclical drivers could pose a significant problem to large parts of the market, which are priced for a continuation of (what appear to be) peak earnings. Contrast that with structural growth opportunities within automation, the internet, and Asian premiumisation, which now present two appealing characteristics: because they have been overlooked and ignored by the flood of foreign money coming into the country, their growth is no longer priced at a premium; and they are already evidencing strong operational progress which the market can no longer afford to ignore. This bodes particularly well for the performance of this portfolio.

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Quarter to 31 March 2024

Stock Name	Contribution (%)
SoftBank Group	1.0
MS&AD Insurance	0.8
Rakuten	0.6
DMG Mori	0.5
Japan Exchange Group	0.4
SBI Holdings	0.3
Tsumura	0.2
Sumitomo Mitsui Trust	0.2
CyberAgent	0.2
Daikin Industries	0.2
Toyota Motor	-1.1
Tokyo Electron	-0.5
Misumi	-0.5
Rohm	-0.4
Pola Orbis	-0.4
Shiseido	-0.4
Kao	-0.3
Fanuc	-0.3
Unicharm	-0.3
Mercari	-0.3

One Year to 31 March 2024

Stock Name	Contribution (%)
MS&AD Insurance	1.1
SoftBank Group	1.1
Japan Exchange Group	0.8
DMG Mori	0.6
Daiichi Sankyo	0.4
Takeda Pharmaceutical	0.4
SBI Holdings	0.4
Daikin Industries	0.4
Rakuten	0.3
NTT	0.3
Toyota Motor	-1.7
Misumi	-1.6
Shiseido	-1.5
Fanuc	-1.1
Tokyo Electron	-0.9
Sumitomo Metal Mining	-0.8
Pola Orbis	-0.8
GMO Internet	-0.8
Rohm	-0.7
Unicharm	-0.7

Source: Revolution, Japan Exchange Group. Baillie Gifford Japanese Fund relative to TOPIX (in sterling).

Some stocks may only have been held for part of the period.

All attribution figures are calculated gross of fees, relative to the Index from stock level up, based on closing prices.

As Attribution is shown relative to the benchmark, not all stocks shown are held in the portfolio. See the List of Holdings section of this report for the stocks held.

Transactions from 01 January 2024 to 31 March 2024.

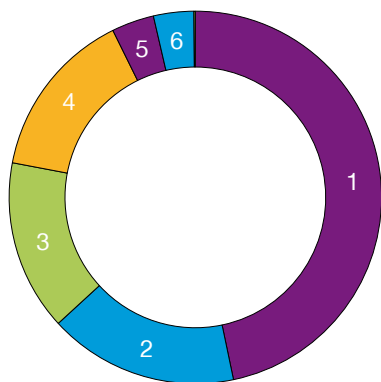
New Purchases

Stock Name	Transaction Rationale
Kose Corp.	Kose is a family-run skincare and cosmetics company in Japan, with specific strength in the high-prestige segment of the market. Its DECORTE, JillStuart and Sekkisei branded products have a strong following not only in Japan, but also in China and other Asian countries where spending on beauty products is poised to grow rapidly over the next decade. We believe the founding family's involvement will help Kose convert this large and growing opportunity in Asia, in a manner that will maintain the strength of its brand portfolio. Shares have been very weak over the last several years and we believe that the current valuation level significantly underestimates the long-term growth prospects of Kose. We have therefore bought the shares for your portfolio.

Complete Sales

Stock Name	Transaction Rationale
Mitsubishi Corp	Mitsubishi Corp is one of Japan's leading general trading companies, with operations spanning resources, oil and gas, machinery, electric power, food and retail. It has successfully diversified its business, appears to be a good allocator of capital and moved into business operation rather than simply co-investment or facilitation. The underlying business is, however, cyclical and we are concerned that it may be over-earning in some divisions. It is promoting itself as an energy transition enabler, but it is far from clear that it is driving change or moving to more defensible and profitable areas. Following a sustained period of outperformance, we decided to sell the shares.
Outsourcing	Outsourcing is a leading staffing company. It is in the process of being acquired by Private Equity. We have sold our entire holding in the company and are recycling the proceeds elsewhere in the portfolio.

Sector Exposure



		%
1	Manufacturing	46.8
2	Finance & Insurance	16.5
3	Transport And Communications	14.8
4	Services	14.8
5	Real Estate	3.7
6	Commerce	3.5
7	Cash	-0.1

As well as cash in the bank, the cash balance includes unsettled cash flows arising from both shareholder flows and outstanding trades. Therefore, a negative balance may arise from timing differences between shareholder flows and security trading, and does not necessarily represent a bank overdraft.

Top Ten Holdings

Stock Name	Description of Business	% of Portfolio
SoftBank Group	Telecom operator and technology investor	7.3
Rakuten	Internet retail and financial services	4.9
Sumitomo Mitsui Trust	Japanese trust bank and investment manager	4.8
SBI Holdings	Online financial services	4.2
MS&AD Insurance	Japanese insurer	4.2
Nintendo	Gaming consoles & software	3.5
GMO Internet	Internet conglomerate	3.4
CyberAgent	Japanese internet advertising and content	3.1
Bridgestone	Tyre manufacturer	2.9
Japan Exchange Group	Stock exchange operator	2.9
Total		41.2

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	20	Companies	None	Companies	None
Resolutions	195	Resolutions	None	Resolutions	None

We published our Japan Strategy Stewardship Report available on our website

Financial Conduct Authority (FCA) has published its Sustainability Disclosures Regulation (SDR) regulation at the end of 2023 which will apply to UK-based investment funds and includes a new fund labelling framework and anti-greenwashing rule

The Environmental, Social and Governance (ESG) Voting analysts are currently analysing the first 'mini' AGM season for companies with December year ends. The 'main' voting season will be later this year in June

Company Engagement

Engagement Type	Company
Environmental	Bridgestone Corporation, Fanuc Corporation
Social	Fanuc Corporation, Recruit Holdings Co., Ltd.
Governance	BASE, Inc., COLOPL, Inc., DMG Mori Co., Ltd., Digital Garage, Inc., Fanuc Corporation, GMO internet group, Inc., Infomart Corporation, KOSe Corporation, Kao Corporation, Kyocera Corporation, MonotaRO Co., Ltd., PARK24 Co., Ltd., Pola Orbis Holdings Inc., Sysmex Corporation, Unicharm Corporation, Wacom Co., Ltd.
Strategy	Bridgestone Corporation, Fanuc Corporation, GMO internet group, Inc., Recruit Holdings Co., Ltd.

For further details on company engagement please contact us. You can also find further information on how we integrate environmental, social and governance (ESG) matters into our investment approach, [here](#).

Asset Name	Fund %
SoftBank Group	7.3
Rakuten	4.9
Sumitomo Mitsui Trust	4.8
SBI Holdings	4.2
MS&AD Insurance	4.2
Nintendo	3.5
GMO Internet	3.4
CyberAgent	3.1
Bridgestone	2.9
Japan Exchange Group	2.9
Sony	2.8
Kubota	2.7
Recruit Holdings	2.6
FANUC	2.5
DMG Mori	2.4
Keyence	2.2
Shiseido	2.0
Kao	2.0
Calbee	1.9
Rohm	1.9
Sumitomo Metal Mining	1.8
Unicharm	1.7
Pola Orbis	1.7
SMC	1.6
Kyocera	1.6
MISUMI	1.5
Tokyo Tatemono	1.4
Tsumura	1.4
Murata Manufacturing	1.3
Sysmex	1.3
M3	1.2
COLOPL	1.1
Sugi Holdings	1.1
MIXI	1.0
MonotaRO	1.0
Olympus	1.0
Kose Corporation	1.0
Mitsubishi Estate	0.9
Topcon	0.9
PARK24	0.9
Nidec Corporation	0.9
Wacom	0.9
Nippon Electric Glass	0.8
freee K.K	0.8
Asahi Group	0.8
LY Corporation	0.7
Nihon M&A	0.7
Mercari	0.6
Kakaku.com	0.6

Asset Name	Fund %
Pigeon	0.5
Kyoto Financial Group, Inc.	0.5
DENSO	0.4
Broadleaf	0.4
Iida	0.4
PeptiDream	0.3
Bengo4.com	0.3
Infomart	0.3
Digital Garage	0.3
BASE	0.2
Cookpad	0.1
Cash	-0.1
Total	100.0

Please note the fund information contained within this document is proprietary information and should be maintained as such and not disseminated. The content is intended for information purposes only and should not be disclosed to other third parties or used for the purposes of market timing or seeking to gain an unfair advantage.

Share Class	Share Class Inception Date	ISIN	SEDOL	Annual Management Fee (%)	Ongoing Charge Figure (%)
Class B-Acc	02 August 1999	GB0006011133	0601113	0.60	0.63
Class B-Inc	08 October 1984	GB0006010945	0601094	0.60	0.63

The table displays the primary shares classes. Other share classes may be available for those investors who have a separate arrangement. Charges will reduce the value of your investment. Please refer to the Prospectus and Key Investor Information Document for further details. The Ongoing Charges Figure ('OCF') may be lower than previous declarations as a result of a revision to how the indirect fees associated with closed-ended investment companies need to be shown. This does not necessarily mean that fund expenses have gone down rather that we have reverted to how they have been calculated until 30 June 2022 to reflect the revised Investment Association's Guidance on Disclosure of Fund Charges and Costs (July 2020, updated January 2022, revised November 2023). A more detailed Costs and Charges disclosure is available upon request.

TOPIX	The TOPIX Index Value and the TOPIX Marks are subject to the proprietary rights owned by JPX Market Innovation & Research, Inc. or affiliates of JPX Market Innovation & Research, Inc. (hereinafter collectively referred to as "JPX") and JPX owns all rights and know-how relating to TOPIX such as calculation, publication and use of the TOPIX Index Value and relating to the TOPIX Marks. JPX shall not be liable for the miscalculation, incorrect publication, delayed or interrupted publication of the TOPIX Index Value.
-------	---

This document contains information on investments which does not constitute independent investment research. Accordingly, it is not subject to the protections afforded to independent research and Baillie Gifford and its staff may have dealt in the investments concerned. Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.

This document is issued by Baillie Gifford & Co Limited, Calton Square, 1 Greenside Row, Edinburgh EH1 3AN, a company which is authorised and regulated by the Financial Conduct Authority, Financial Services Register No. 119179, and is a member of The Investment Association. Baillie Gifford & Co Limited is wholly owned by Baillie Gifford & Co, which is authorised and regulated by the Financial Conduct Authority. Baillie Gifford Overseas Limited is wholly owned by Baillie Gifford & Co. Baillie Gifford Overseas Limited provides investment management and advisory services to non-UK clients. Both are authorised and regulated by the Financial Conduct Authority.

Additional Geographical Location Information

Israel: This Report, as well as investment in the Fund described herein, is directed at and intended for Investors that fall within at least one category in each of: (1) the First Schedule of the Israeli Securities Law, 1968 (“Sophisticated Investors”); and (2) the First Schedule of the Investment Advice Law (“Qualified Clients”).

The Fund’s share price can be volatile due to movements in the prices of the underlying holdings and the basis on which the Fund is priced.

As with any investment, the clients’ capital is at risk. Past performance is not a guide to future returns.

Throughout the report all figures are rounded, so any totals may not sum. Not all stocks mentioned may be held by the portfolio.

All information as at 31 March 2024 and source is Baillie Gifford & Co unless otherwise stated.

Baillie Gifford & Co Limited
Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone +44 (0)131 275 2000 [bailliegifford.com](https://www.bailliegifford.com)